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January 1990 Monthly Survey February 9, 1990

Surveys of Consumers

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Overall Sentiment Posts Uneven Changes
Price Discounts Improve Buying Attitudes

Overall Index Improves

The Index of Consumer Sentiment was 93.0 in the January 1990 survey, up from 90.5 in December 1989, but significantly below the 97.9 recorded in January 1989. The entire improvement above the December reading resulted from more favorable assessments of buying conditions for household durables due to widespread reports of price discounts. Apart from the improvement in buying attitudes, the other Index components would have registered a slight decline.

Among families with incomes of $40,000 or more, the Index was 103.2 in January 1990, below the 104.1 recorded one month earlier and the 106.8 recorded one year earlier.

Leading Indicator Declines

The Index of Consumer Expectations was 83.4 in the January 1990 survey, down from 85.5 one month earlier and 89.9 one year earlier. Consumers voiced less favorable expectations for both their own personal finances as well as prospects for the economy as a whole in the January survey.

The Index of Current Economic Conditions rose to 108.0 in the January 1990 survey from 98.2 one month earlier based entirely on the strength of more favorable evaluations of current buying conditions. Despite this sharp improvement, the Current Conditions Index in January 1990 was still below the year earlier reading of 110.3.

Personal Finances

Consumers' assessments of their current financial situation has remained largely unchanged during the past several months. Among all families in the January 1990 survey, 43 percent reported that their financial situation had improved during the past year. This proportion was between the 41 percent recorded one month earlier and the 44 percent recorded one year earlier.

Increases in family income were reported by 33 percent of all families in the January 1990 survey, between the 31 percent recorded one month earlier and the 34 recorded one year earlier.

The proportion of families that expected their financial situation to improve during the year ahead fell to 35 percent in the January 1990 survey, down from 37 percent one month earlier and 41 percent one year earlier. While fewer families expected improvement, the proportion that expected a worsening financial situation did not increase by a comparable amount (11 percent in January 1990, just ahead of the 10% a year earlier). More families expected, considering changes in both incomes and prices, that their financial situation would remain largely unchanged (51 percent, up from 47 percent a year earlier).

Aware of Slowdown in Economy But No Recession Expected

Favorable assessments of the current state of the national economy were given by 43 percent of all families in the January 1990 survey, down from 53 percent in the January 1989 survey. Overall, 38 percent of all families thought that the economy had worsened during 1989, substantially above the 26 percent that gave a similar assessment for 1988.

Despite the growing opinion that the performance of the national economy has weakened, just 17 percent thought that the economy would worsen during the year ahead in the January 1989 survey, unchanged from a year ago. The majority of families in the January 1990 survey continue to expect the performance of the national economy to remain unchanged during the year ahead (59 percent in January 1990, up from 56 percent a year earlier).

The anticipation of continued slow economic growth has meant that consumers do not expect a recession during the year ahead, but the longer term outlook has become less favorable.

Good times financially in the economy as a whole were expected by 52 percent of all families in the January 1990 survey, between the 49 percent recorded one month earlier and the 56 percent recorded one year earlier.

Over the longer term, 37 percent of all families expected good times financially during the next five years, down from 39 percent one month earlier and 45 percent one year earlier. Moreover, during the past year the balance of opinion has reversed: Whereas in the January 1989 survey the percent that expected good times over the longer term was slightly higher than the proportion that expected bad times financially (45 versus 42 percent), in the January 1990 survey the balance of opinion was the reverse (37 versus 45 percent).

Unemployment Expectations Remain Largely Unchanged

Little change in unemployment expectations has been recorded during the past few months. The majority of families expected the national unemployment rate to remain unchanged in the January 1990 survey (52 percent) as well as in the January 1989 survey (50 percent). On the margin, however, more families expected increases in unemployment than declines in January 1990 (36 versus 10 percent), and this negative balance of opinion has grown slightly since January 1989 (34 versus 15 percent).

Interest Rate Expectations Register Small Improvement

Interest rate expectations posted a small improvements during the past few months, and at the start of 1990 were much more favorable than a year earlier. Among all families in the January 1990 survey, 45 percent expected increases in interest rates during the year ahead, substantially below the 68 percent recorded at the start of 1989. Declines in interest rates were expected by 27 percent of all families in the January 1990 survey, significantly above the 7 percent recorded a year earlier. In spite of these improvements, the balance of opinion still points toward further increases rather than declines during the year ahead.

Inflation Expectations Post Significant Increase

Consumers expected an annual inflation rate of 5.4% in the January 1990 survey, up sharply from the 4.6% recorded one month earlier and the 5.1% recorded one year earlier. During the last half of 1989, the expected inflation rate averaged 4.7%, and showed little month-to-month variation. While the January reading represents a significant departure from this trend, a single months reading should be treated with caution. In the Spring of 1989, the expected inflation rate rose to a high of

5.8% and then quickly receded by mid year.

Favorable Durable Buying Attitudes Rebound Due to Price Discounts

The proportion of consumers holding favorable attitudes toward buying conditions for household durables rose significantly in the January 1990 survey. The increase in these favorable attitudes was due to much more frequent reports of the availability of price discounts.

The proportion of families holding favorable attitudes toward buying conditions for appliances, furniture, and home electronic goods rose to 77 percent in the January 1990 survey, up from 65 percent one month earlier. Despite this sharp improvement, the January 1990 figure was only marginally above the September 1989 reading of 75 percent, and just below the 78 percent recorded in the January 1989 survey. Indeed, during 1989 it was only in the November and December surveys that the proportion holding favorable attitudes fell below 70 percent.

When asked to explain their views on buying conditions for durables, 45 percent mentioned the availability of price discounts in the January 1990 survey, up from 34 percent in December. At 45 percent the January 1990 reading ties the all-time record recorded in the January surveys of 1984 and 1985.

Vehicle Assessments Regain December Loss

Favorable attitudes toward buying conditions for vehicles were held by 63 percent of all families in the January 1990 survey. Although this represents a small improvement from the 58 percent recorded in the December 1989 survey, in all of 1989 it was only the December survey that was outside of the narrow range of 61 to 65 percent. Rather than indicating an improving trend, the January data suggests that auto buying attitudes have resumed their relatively unchanged horizontal path.

Although there has been little change in the overall proportion holding favorable vehicle buying attitudes, the reasons given for these favorable attitudes have become increasingly focused on the availability of price discounts. References to price discounts and rebates on new vehicle purchases were made by 48 percent of all families in the January 1990 survey, up sharply from 38 percent one month earlier and 28 percent one year earlier. At 48 percent, the January reading was the highest proportion ever recorded in the history of these surveys, replacing the prior record of 41 percent recorded just last November.

In contrast to this dominant focus on the availability of price discounts, references to reduced interest rates on vehicle purchases were mentioned by just 12 percent of all families in the January 1990 survey, just between the 13 percent recorded one month earlier and the 11 percent recorded one year earlier. This unchanged trend is surprising since interest rate discounts as well as price discounts were announced in recent months.

Home Buying Attitudes Unchanged In January

The proportion holding favorable attitudes toward buying conditions for homes stood at 64 percent in the January 1990 survey, unchanged from the month and year earlier readings.

Favorable price references were made by 26 percent of all families in the January 1990 survey, up from 22 percent one month earlier and 19 percent one year earlier. Favorable references to current mortgage rates also increased, to 31 percent in January 1990 from 26 percent one month earlier and 22 percent one year earlier.

While both of these factors tended to improve home buying attitudes, fewer consumers reported the advisability of speeding up purchases to avoid future increases in prices or mortgage rates. Overall, the greater appeal of current prices and mortgage rates was offset by the lessened

incentive to act in advance of further increases.

Among all families, the proportion that favorably viewed borrowing-in-advance of rising mortgage rates fell to just 4 percent in January 1990, from 7 percent one month earlier and 16 percent one year earlier. Favorable views of buying-in-advance of rising home prices also fell, to 10 percent in January 1990 from 12 percent one month earlier and 13 percent one year earlier.

Seasonal References To Price Discounts

The pattern of responses to the January surveys indicates a consistent increase in the proportions of consumers that mention price discounts. The increase from December to January in references to price discounts has been observed since 1978, when the monthly surveys began. (Before 1978, the surveys were conducted quarterly, usually in the months of February, May, August, and November.)

The seasonal pattern is most pronounced in the responses to the question on buying conditions for large household durables, although even for this question the January increase has not always been large. The following data indicate the change in the proportion that mentioned the availability of price discounts from the December to the January surveys of the indicated years for each of the product market studied:

YEAR	DURABLES	CARS	HOMES
1980	+5	-7	0
1981	+6	+5	-1
1982	+6	+7	+1
1983	+1	-10	+1
1984	+7	+5	-3
1985	+12	+6	-2
1986	+1	-1	+1
1987	+7	-2	+1
1988	0	+1	+3
1989	+4	+2	+3
1990	+11	+10	+4

Compared to the consistent, if uneven, increase in mentions of price discounts for household durables, the increase in references to price discounts on vehicles are less uniform in the January surveys and the increase in favorable price references for homes is very small. For the vehicle market, the changing availability of price discount programs offered by vehicle manufacturers may well account for the differences.

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The January 1990 survey included 500 completed interviews conducted between January 3 and January 30, 1990.